

## PROJECT OVERSIGHT REPORT

**Insurance System Replacement Project (ISRP)**  
**Health Care Authority**

**Report as of Date:**  
**June 2003**

**Project Director:** Christine Spaulding  
**MOSTD Staff:** Tom Parma

**Executive Sponsor:** Tom Neitzel

**Description:** The Health Care Authority (HCA) received ISB approval and legislative funding to replace its two separate systems that support the Public Employee Benefit Board (PEBB) and Basic Health (BH) insurance lines of business with a single vendor-supplied system. The PEBB system was developed and is operated and maintained by the Department of Personnel (DOP); the BH system was developed and is operated and maintained by HCA staff. The goal of this project is to provide a single health insurance system to support both PEBB and Basic Health insurance lines of business, provide technology to improve the use of information, and reduce the overall cost of processing.

The new insurance system is expected to improve customer service by providing more accurate and timely resolution to customer inquiries, and by improving business processes and workflows. The new system will give customers and providers the ability to perform several functions over the Internet such as: applying for insurance; updating personal information; paying premiums; and checking eligibility. It will also position the agency to comply with the federal Health Insurance Portability and Accountability Act (HIPAA) of 1996.

In addition to the intangible benefits of improved customer service, this initiative is anticipated to provide over \$1.5 million in annual benefits primarily from reduction in operational costs. The project has a five-year payback period.

The contract was awarded to Healthaxis Inc. for \$3.036 million and work began June 3, 2002. KPMG has been engaged as the external Quality Assurance (QA) vendor.

The major project phases are:

- Phase I – Requirements definition, system architecture selection.
- Phase II – Detailed application design requirements, data migration, development, test.
- Phase III – Acceptance testing, training, implementation.

Although not technically a phase of the development portion of the project, a parallel activity is the decommissioning of the insurance functions of the PEBB system at DOP.

**Technology:** The new system will make use of Sun servers running UNIX and Oracle database products.

**Life Cycle Stage:** Phase II, in progress – Detailed application design requirements (completed), data migration, development (completed), and test.

**Budget:** The budget is \$5.14 million for the entire project, including decommissioning. The budget has increased \$150,000 to account for increased staffing costs resulting from the delayed implementation date. The project is fixed-price, deliverables-based. Of this amount, \$4.4015 million is for purchasing, tailoring, implementing, and training for the new system; \$975,000 is for the system decommissioning at DOP. Through May 2003, actual expenses were \$2,990,993. The system hardware and software has been received and installed at DIS.

**Schedule:**

| <b><i>Deliverable</i></b>  | <b><i>Contract<br/>Payment<br/>Schedule</i></b> | <b><i>Initial<br/>Delivery<br/>Schedule</i></b>    | <b><i>Status</i></b>  |
|--|---|--|---|
| <b>Phase I:</b>  |   |  |   |
| Contract signed  |   | May '02  | Completed -<br>on time  |
| Begin contractor work on analysis & planning   |   | June '02   | Completed -<br>on time  |
| Complete business & technical analyses<br>(User Requirements Documents)  | 275,000   | Sept '02   | Completed –<br>on time  |
| <b>Phase II</b>  |   |  |   |
| Begin design, development, system testing  |   | July '02   | All began on<br>time – system<br>design and<br>development<br>took approx. 2<br>mos. longer       |
| Complete process mapping, approve software<br>requirements specifications and high level<br>design                 |   | Dec '02  | Process<br>mapping and<br>software<br>requirements<br>specs began<br>late;<br>completed<br>2/2003 |
| Complete design, development, system<br>testing (Major Deliverables in Mar, Apr, May,<br>minor deliverable by Sep) | \$1,604,849                                     | May '03  | Deliverable 1<br>one week late;<br>deliverables 2<br>& 3 completed<br>on schedule                 |
| <b>Phase III</b>   |   |  |   |
| Begin User Acceptance Test   |   | Mar '03  | Rescheduled<br>to 7/2003  |
| Complete User Acceptance Test  |   | May '03  | Rescheduled<br>to 9/2003  |
| Begin User Training  |   | Mar '03  | Rescheduled<br>to 7/2003  |
| System implemented and in production   | \$804,690                                       | June 30, 2003                                      | Rescheduled<br>to 10/2003   |
| <b>Subtotal:</b>   | <b>\$2,684,539</b>                              |  |   |
| Withhold   | \$441,091                                       | December 30,<br>2003<br>(Acceptance +<br>120 days) | Scheduled for<br>120 days past<br>full production<br>status                                       |
| <b>TOTAL:</b>  | <b>\$3,125,630</b>                              |  |   |

**Status:** The project plan calls for four staggered deliverables; the intent is to mitigate risk by allowing for later delivery of system functions that are not required by October 2003 (e.g., end of year close-out).

**Issues:**

- Schedule: System test is approximately three weeks behind schedule. Earlier this year HCA revised its schedule to reflect an October 6, 2003 implementation date to coincide with the beginning of benefits open enrollment. HCA and Healthaxis must now determine if this new date is achievable.
- Impacts on DOP: DOP operates and provides technical support for the current HCA insurance and eligibility accounting systems. The delay of ISRP to October 6<sup>th</sup> will require DOP to make routine maintenance modifications to the current HCA systems to support open enrollment scheduled to begin in late October. DOP must install new vendor rates and produce mailing and quote information for member groups. The current HCA systems cannot be decommissioned until ISRP is in production. This will delay the availability of some DOP support personnel until ISRP implementation.
- Budget/Cost: The budget for ISRP has increased by \$150,000 to cover internal project staffing costs due to the implementation delay. HCA received approval to carry forward unspent funds to the 2003-05 Biennium to cover the later implementation date and increased cost. HCA has included the costs to continue running the legacy systems at both DOP and HCA, including costs associated with preparation for open enrollment. HCA and DOP are extending the operating agreement to allow for the later implementation date of ISRP.
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**Recommendation:** ISB oversight staff recommends that HCA, in concert with DOP, develop a mitigation plan to modify the current DOP system to support benefits open enrollment, as has been done in the past. In addition, staff recommends that HCA and Healthaxis determine which organization is responsible for funding these possible DOP system modifications.